

Message Text

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FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC 1694

INFO AMEMBASSY DACCA

AMEMBASSY ISLAMABAD

AMEMBASSY KABUL

AMEMBASSY KATHMANDU

AMEMBASSYLONDON

AMEMBASSY NEW DLHI

AMEMBASSY TEHRAN

CINCPAC

C O N F I D E N T I A L SECTION 1 OF 4 COLOMBO 02832

C O R R E C T E D C O P Y FOR REMOVAL OF LIMDIS CAPTION.

EO 11652: GDS

TAGS: PFOR, PINT, ECON, CE

SUBJ: QUARTERLY OVERVIEW: JULY - SEPT 1974

REF: COLOMBO 1837

CINCPAC FOR POLAD

1. SUMMARY: DURING PAST RHEE MONTHS, FOCUS OF CEYLON
POLITICS HAS SHIFTED FROM UNITED FRONT (UF) ELATION WITH
ITS SUCCESS IN RETURNING OPPOSITION TO POLITICAL WILDERNESS
TO STRESSSS WITHIN AND AMONG MEMBERS OF UF COALITION.
ALTHOUGH OUTWARDLY EXUDING BUOYANT MOOD, UFLEADERSHIP IN
ALL THREE PARTIES IS TROUBLED AND DIVIDED BY EXIGENCIES OF
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SRI LANKA'S DEEPENING ECONOMIC CRISIS. CONTINUED EFFORT

TO SPUR DOMESTIC FOOD PRODUCTION, ACCOMPANIED BY ECONOMIC POLICIES BIASED IN FAVOR OF RURAL AREAS, HAS BEEN PARALLELED BY SHRINKAGE IN URBAN STANDARDS OF LIVING. INCREASINGLY UNDER FIRE FROM URBAN CONSTITUENTS AND TRADE UNIONS, LEFT PARTIES, ESPECIALLY TROTSKYITE LANKA SAMAJA SAMAJA PARTY (LSSP) ARE EXERTING PRESSURE FOR FASTER SOCIALIST PACE AS PRICE FOR THEIR SUPPORT FOR UNPOPULAR ECONOMIC MEASURES.

2. DESPITE PRIME MINISTER BANDARANAIKE'S PUBLIC REBUKE OF THESE LEFTIST PRESSURES, STRESSES ARE LIKELY TO BECOME MORE INSISTENT AS HARSH DECISIONS WILL NEED TO BE MADE IN NEAR FUTURE REGARDING FURTHER CUTS IN SUBSIDIZED FOOD AND WELFARE BENEFITS. FACT IS THAT COUNTRY'S ECONOMIC SITUATION IS VERY DIFFICULT. DOMESTIC FOOD PRODUCTION, AFTER WEAKLY PEAKING IN WAKE OF GOOD RAINS, IS STILL INSUFFICIENT AND LIKELY TO BEGIN FALLING. PRODUCTIVE CAPACITY OF PLANTATION EXPORT SECTOR IS ALSO DECLINING, ALTHOUGH THIS TREND HAS BEEN MASKED BY RISING EXPORT PRICES. INTERNAL AND EXTERNAL BUDGET DEFICITS ARE GROWING RAPIDLY, BUT POLITICAL DIFFICULTIES OF FURTHER REDUCING FOOD IMPORTS SO FAR HAVE HELD BACK ANY DECISION TO REDUCE IMPORTS IN 1975. RESULT IS TO ERODE POTENTIALLY FAVORABLE IMPACT OF INCREASED FOREIGN AID AND PROSPECTIVE LIMITED MIDDLE EAST CREDITS WHICH REPRESENT ONLY BRIGHT SPOT FOR ECONOMY.

3. ALTHOUGH SUBSTANCE OF SRI LANKA'S FOREIGN POLICY CHANGED LITTLE DURING PAS QUARTER, ITS PROFILE WAS RAISED IN WAKE OF MRS BANDARANAIK'S VISITS TO MALDIVES, PAKISTAN, ROMANIA, FRG, AND YUGOSLAVIA. THESE RESULTED IN IMPROVED BILATERAL RELATIONS, ESPECIALLY WITH MALDIVES, AND TO ECONOMIC ASSISTANCE, PARTICULARLY IN FORM OF PROMISED FERTILIZER FROM FRG AND ROMANIA. NOW THESE EMERGING PREPARATIONS FOR 1976 NON-ALIGNED CONFERENCE GATHER MOMENTUM IS CONCEPT OF A "ASIAN APPROACH" OR "IDENTITY", PERHAPS PRESAGING BROADER FRAMEWORK THAN PREVIOUS SINGLE-TRACK EMPHASIS ON INDIAN OCEAN PEACE ZONE.

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4. BILATERAL RELATIONS WITH UNITED STATES REMAIN GOOD, ALTHOUGH THERE EXISTS RESIDUAL NERVOUSNESS ABOUT FORD ADMINISTRATION'S FUTURE ATTITUDE TOWARD SRI LANKA, NOW GRADUALLY BEING ASSUAGED BY REASSURANCES IN WASHINGTON AND COLOMBO. ONLY POSSIBLE CLUE IS RENEWED SUSPICIONS OF US MOTIVES IN REGION AND WORLD, STEMMING IN PART FROM DIEGO GARCIA PLANS AND ALSO FROM CONCERN RE CIA ACTIVITIES IN CHILE. LEFTISTS HAVE ONCE AGAIN TRIED TO DRAW PARALLEL

BETWEEN SITUATION IN SRI LANKA AND CHILE. END SUMMARY.

5. DOMESTIC POLITICS: TENSION EMERGING WITHIN UF COALITION. DURING PAST THREE MONTHS, SUBSTANCE OF POLITICS IN SRI LANKA HAS SHIFTED FROM UNITED FRONTS ELATION WITH ITS SUCCESS IN RETURNING OPPOSITION TOPOLITICAL WILDERNESS TO RESURFACING OF STRESSES PRESENT IN COALITION SINCE ITS INCEPION. OUTWARDLY, UF CONINUS TODECLARE ITS CONFIDENCE THAT ITS PROGRAM IS BEING FULFILLED AND THAT MASS OF CEYLONENE PEOPLE SUPPORT MRS BANDARANAIKE'S GOVERNMENT. HALF-DOZN UFRALLIES HELD SINCE JULY PACKED THEM IN IN THOUSANDS, WHEREVER PRIME MINISTER AND HER CABINET COLLEAGUES CHOSE TO HOLD THEM. TWO OPPOSITION MP'S DEFECTED TO SRI LANKA FREEDOM PARTY (SLFP) IN EARLY JULY AND FOR TIME IT APPEARED OTHERS MIGHT FOLLOW. FIRST PHASE OF LAND REFORM ENDED ON SCHEDULE AUG 26, LEAVING MORE THAN HALF MILLION ACRES IN THIS SMALL COUNTRY IN GSL HANDS. ITS IMPLEMENTATION, PARALLELED BY CUMULATIVE IMPACT OF INCOME AND HOUSING CEILINGS, HAS LEFT IN DISARRAY A CLASS LONG IDENTIFIED WITH PRIVILEGE AND UNITED NATIONAL PARTY (UNP). LIFTING ON SEPT 4 OF APRIL BAN ON UNP PUBLIC MEETINGS CAUSED LITTLE PUBLIC STIR EVEN AMONG UNP LEADERS. LATTER PROFESS CONINUED PRIORITY IN DEVELOPING GRASS-ROOTS ORGANIZATION.

NOTE BY OC/T: LIMDIS CAPTION REMOVED PER MR. DENNIS KUX (NEA/INS).

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R 100730Z OCT 74

FM AMEMBASSY COLOMBO

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C O N F I D E N T I A L SECTION 2 OF 4 COLOMBO 2832

LIMDIS

6. ANNUAL MEETING OF COMMONWEALTH PARLIAMENTARY ASSOCIATION (CPA), HELD IN COLOMBO SEPT 6 - 14, GAVE UFG OPPORTUNITY TO REMIND ITSELF AND WORLD THAT SRI LANKA REMAINS WEDDED TO DEMOCRATIC PARLIAMENTARY POLITICS. BUT WITH OPPOSITION THAT CHOOSES TO BE SILENT AND A PRESS THAT NOW IS LARGELY SILENT, DEBATE ON DEGREE OF POPULAR SUPPORT UF ENJOYS AND ON FUTURE POLICY FOR SRI LANKA IS LARGELY CONFINED TO COALITION ITSELF. SIGNIFICANT ELEMENTS WITHIN UF PRIVATELY BELIEVE THAT OFFICIAL MOOD OF CLOYANCE ARE NOT SUPPORTED BY ECONOMIC FACTS.

WITHOUT UNIFYING EFFECT OF OPPOSITION CHALLENGE, HARSH CHOICES WHICH MUST BE MADE SOON AND WILL AFFECT BASIC STANDARDS OF LIVING HAVE BROUGHT TO FORE TENSIONS INHERENT IN AS VARIEGATED A COALITION AS UF.

7. STRAINS BETWEEN SLFP AND LSSP. UF DIVISIONS CANNOT SIMPLY BE DESCRIBED AS RIGHT-WING PRO-RURAL SRI LANKA
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FREEDOM PARTY (SLFP) CORE AGAINST URBAN-ORIENTED LEFT SPANNING ALL OR PARTS OF THREE COALITION PARTIES. AT TIMES, BOTH GROUPS OVERLAP, BUT ON WHOLE THEY FACE DIFFERENT KINDS OF CHALLENGES AND DEMANDS FROM THEIR CONSTITUENCIES. DIFFICULTY FOR LEFT IS THAT IT MAKES GOOD ECONOMIC AND POLITICAL SENSE FOR GSL TO HEED RURAL MAJORITY--TO Coddle ITS PAROCHIAL VIEWS, PAY HIGHER FARM PRICES, AND SHIFT GOVT EXPENDITURES TO COUNTRYSIDE. BUT WHILE RATIONAL AND NECESSARY, SUCH ORIENTATION OF PRIORITIES HAS LEFT LITTLE BUT MORE BURDENS FOR URBAN SECTOR. DEBATE IS ESPECIALLY ACUTE WITHIN TROTSKYITE LSSP, HEADED BY CABINET MINISTERS WHO REPORTEDLY HAVE INITIATED AND HAVE PUBLICLY DEFENDED FREQUENT PRICE INCREASES IN PETROLEUM PRODUCTS, RICE, SUGAR, WHEAT FLOUR, AND OTHER COMMODITIES. PRESSURE FROM PARTY'S YOUTH LEAGUE CONGRESS IN EARLY AUG AND FROM ITS POWERFUL TRADE UNION ARM IS TO EXTRACT STEEP PRICE FROM UFG IN EXCHANGE FOR LSSP ACQUIESCENCE IN MEASURES CERTAIN TO DEEPEN POPULAR FRUSTRATION BY FURTHER CUTTING URBAN WORKERS REAL INCOME.

8. EMERGING TRADE-OFF WHICH LSSP AND LEFT IN GENERAL ARE PUSHING IS CLEAR: SUPPORT FOR FURTHER RATION AND FOOD

SUBSIDY CUTS AND FOR CONTINUED PRO-RURAL ECONOMIC POLICY IN EXCHANGE FOR QUICKENED SOCIALIST MOMENTUM. NATIONALIZATION OF BANKS, TAKE-OVER OF TEXTILE MILLS, FURTHER CONTROLS ON FOREIGN OWNED TEA COMPANIES CONTINUE TO BE MEASURES LSSP INSISTS MUST BE IMPLEMENTED IF ITS TRADE UNION SUPPORTERS ARE TO REMAIN SILENT IN FACE OF SOARING COST OF LIVING. SUCH PRESSURE, NOW INCREASINGLY INJECTED INTO CABINET DEBATE AND PUBLIC RHETORIC AND ECHOED BY IMPORTANT ELEMENTS IN SLFP AND COMMUNIST PARTY/MOSCOW WING (CP/M).

9. MRS BANDARANAIKE PLACED LEFT ON NOTICE IN EARLY AUG AT RALLY IN POLONNARUWA DISTRICT WHEN SHE DENOUNCED "FOREIGN IDEOLOGIES", WIDELY CONSTRUED AS REBUKE BOTH TO LSSP FINANCE MINISTER N M PERERA AND TO SON-IN-LAW KUMAR RUPASINGHE, WHOSE INFLUENCE SEEMS TO HAVE DECLINED DURING QUARTER. WRAPPING HERSELF IN MANTLE OF S W R D BANDARANAIKE'S LEGACY, MRS B HAS CLAIMED CREDIT FOR CONFIDENTIAL

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SLFP PUBLICLY AND PRIVATELY FOR LAND REFORM, NATIONALIZATION, SELF-SUFFICIENCY IN FOOD PRODUCTION, AND UF'S BASIC COMMITMENT TO SOCIALISM (COLOMBO 2460 NOTAL). OVERNIGHT HER PIVOTAL INTERVENTION SHARPENED DEBATE WITHIN UF AND ENCOURAGED RIGHT WING OF SLFP. PM'S TACK PARALLELS THAT OF SON, ANURA, WHO HAS BEGUN TO TAKE MUCH MORE ACTIVE POLITICAL ROLE. HE, TOO, HAS STRESSED SWRD POLICIES WHILE ENGAGING IN BARELY CONCEALED ATTACKS ON BROTHER-IN-LAW KUMAR RUPASINGHE (COLOMBO 1940) AND OTHER LEFTIST PARTIES AND ALIGNING HIMSELF WITH RIGHT-WING OF SLFP. HE HAS PLACED SOME DISTANCE BETWEEN HIMSELF AND HIS MOTHER, PARTICULARLY ON ECONOMIC POLICY, WHERE HE HAS BECOME CHAMPION OF RETAINING FOOD SUBSIDIES ESPECIALLY FOR CHILDREN. RIGHT WING'S CURRENT ASCENDANCY, CENTERING ON IRRIGATION MINISTER MAITHRIPALA SENANAYEKE, IS SOURCE OF MUCH DISCOMFORT IN LEFTIST QUARTERS AT MOMENT, BUT IT MUST BE PLACED IN CONTEXT OF PM'S INTERVENTION AND RIGHT'S SUPPOSED DISARRAY ONLY SIX MONTHS AGO.

10. MUCH OF CURRENT DEBATE HAS UNREAL QUALITY. NO ONE ANTICIPATES EXPULSION OR WITHDRAWAL OF LEFT FROM UF. PROSPECT OF ELECTIONS IN NEAR FUTURE IS EQUALLY REMOTE, DESPITE UNENDING SPECULATION ON THIS SCORE. REITERATION OF UF'S MANDATE AND INTENTION TO REMAIN IN OFFICE UNTIL 1977 HAS BEEN FREQUENT THEME OF MANY UF SPOKESMEN DURING PAST THREE MONTHS AND THERE IS NO REASON TO DOUBT THEIR SINCERITY. ACID TEST OF LEFT-RIGHT RELATIONS WILL PROBABLY OCCUR WHEN ACTUAL DECISION TO HOLD FREE ELECTIONS WILL HAVE TO BE CONFRONTED. MORE IMMEDIATELY,

RECENT DEATH OF SLFP MP FOR LAKAWEWA OPENS PROSPECT
OF KEY BYELECTION IN RURAL AREA HERETOFORE CONSIDERED
SAFE SLFP SEAT BUT WHICH MANY NOW REGARD AS TOSS-UP.
WHATEVER ITS OUTCOME, KALAWEWA WILL BE WATCHED CLOSELY BY
ALL PARTIES AND FACTIONS AS KEY INDICATOR OF RURAL MOOD.

11. INCREASED ECONOMIC DIFFICULTIES AHEAD. FUNDAMENTAL
ECONOMIC PROBLEMS REMAIN REAL AND ARE WORSENING. INDEED,
UF'S HIGH-WATER MARK MAY HAVE BEEN REACHED AT BEGINNING
OF PAST QUARTER WHEN RELATIVE EASING OF FOOD AND
FINANCIAL CRISIS, EVIDENT AT THAT TIME, CONTRIBUTED TO
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ITS FEELING OF CONFIDENCE. AS QUARTER PROGRESSED,
HOWEVER, MANIFESTATIONS OF SRI LANKA'S CHRONIC
DIFFICULTIES ACROSS BROAD FRONT BECAME MORE OBVIOUS AND
MORE COMPELLING, CAUSING GSL TO ADJUST CONSUMPTION AND
FOOD PRICES SIGNIFICANTLY. MEASURES INCLUDED: A) JULY 12:
ELIMINATION OF LONGSTANDING PADDY FERTILIZER SUBSIDY
(INCREASING PRICE TO FARMER BY OVER 300 PERCENT) AND
SIMULTANEOUS INCREASE IN GUARANTEED PADDY PRICE TO FARMERS
FROM RS 30 TO RS 33 PER BUSHEL. B) AUG 5: PRICE
PAID FOR RICE SOLD ON RATION WAS REDUCED BY TEN RUPEE
CENTS (FREE ONE POUND HALF-MEASURE CONTINUES), BUT FLOUR
PRICES WERE RAISED SUBSTANTIALY (TO EQUAL PRICE OF RICE)--
FROM 70 CENTS TO RS 1.10 PER POUND FOR RATIONED FLOUR.

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R 100730Z OCT 74
FM AMEMBASSY COLOMBO
TO SECSTATE WASHDC 1696

INFO AMEMBASSY DACCA
AMEMBASSY ISLAMABAD
AMEMBASSY KABUL
AMEMBASSY KATHMANDU
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C O N F I D E N T I A L SECTION 3 OF 4 COLOMBO 2832

LIMDIS

(C) SEPTEMBER 15: APPROXIMATELY 60 PERCENT INCREASE IN PRICE OF MILK FOOD, INCLUDING INFANT FOODS. (D) OCTOBER 1: SUGAR RATION WAS REDUCED FROM ONE TO THREE-QUARTERS POUND AT UNCHANGED PRICE. OFF-RATION DISTRIBUTION OF SUGAR WAS STOPPED ENTIRELY, WHILE THAT FOR HOTELS AND BAKERIES WAS SEVERLY CUT, WITH PRICE RAISED FROM RS. 5 TO RS. 7.50 PER POUND. THESE CHANGES REFLECTED GSL'S CONTINUED COMMITMENT TO PARE SUBSIDIES AND TO PASS ON TO CONSUMER COST OF GOODS AND SERVICES, AS DID ALSO LAST MONTH'S PUBLIC AFFIRMATION BY CEYLON TRANSPORT BOARD (CTB) CHAIRMAN MOONESINGHE THAT CTB HAD "LAUNCHED ITSELF ONTO NEW STAGE" AND WAS NOW OPERATING AS COMMERCIAL ORGANIZATION WITH PROFIT MOTIVE.

12. NONETHELESS, WHILE COMMENDABLE, THESE MEASURES PROMISE LITTLE RELIEF FOR BELEAGUERED ECONOMY. INDEED, CURRENT KX EVIDENCE INDICATES VERY SERIOUS ECONOMIC DIFFICULTIES AHEAD, PUBLIC AWARENESS OF WHICH WILL PROBABLY ERODE IMPROVED CONFIDENCE IN UFG. ALTHOUGH ESSENTIAL (#)
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PROMISE VERY
LARGE INTERNAL BUDGET AND PAYMENTS BALANCE DEFICITS FOR 1974 AND 1975. FOR EXAMPLE, IN SPITE OF INCREASING DOMESTIC REVENUES, INTERNAL BUDGET'S UNFINANCED CURRENT DEFICIT HAS PROBABLY DOUBLED FROM NOVEMBER 1973 BUDGET ESTIMATE, LARGELY BECAUSE OF FOOD SUBSIDY COSTS. ALTHOUGH PANICKY SOLICITATIONS FOR QUICK LOANS AND DEBT SERVICE DEFERMENT EARLIER THIS YEAR ARE NOT BEING REPEATED, GSL FACES INCREASING DIFFICULTY IN PAYING BILLS WITHOUT CONTINUING EMERGENCY FINANCING

SUCH AS IMF OIL FACILITY, IDA PROGRAM LOAN, AND PETRODOLLAR LOANS. WITH ANNUAL BUDGET PRESENTATION SCHEDULED NOVEMBER 6, THERE EXISTS WIDE RECOGNITION AND INCREASING PROMOTION BY GOVERNMENT PRDVS AND SENIOR SPOKESMEN OF NOTION THAT FURTHER CUTS ARE FINANCIALLY IMPERATIVE. CLEARLY, MOST SENSITIVE CHANGE UNDER CONSIDERATION WILL BE ELIMINATION OF REMAINING FREE HALF-MEASURE RICE ON RATION (ONE POUND PER PERION PER WEEK), MOVE REPORTEDLY PROPOSED TO CABINET BY FINANCE MINISTER N.H. PERERA BUT PUBLICALLY OPPOSED BY ANURA BANDARANAIKE. IT SHOULD BE NOTED THAT ACTUAL AND ANTICIPATED CUTBACKS IN WELFARE SUBSIDIES REFLECT RATIONALIZATION IN PRICE STRUCTURE UNDER DEPESERATE CONDITIONS AND DO NOT IMPLY FUNDAMENTAL CHANGE IN POLITICAL OUTLOOK OF THOSE FORCED TO MAKE THEM.

13. MEANWHILE, VITAL DOMESTIC FOOD PRODUCTION SITUATION IS MIXED. RECENT GSL CLAIMS OF RECORD 1974 PADDY PRODUCTION ARE PROBABLY INFLATED, BUT LOWER OFF-RATION (BLACK MARKET) RICE PRICES ARE VERY FACT CUTS AND PRICE INCREASES HAVE SO FAR BEEN TOLERABLE INDICATE PROBABILITY THAT MORE DOMESTICALLY PRODUCED FOOD IS NOW IN NATIONAL MARKET SYSTEM. IMPROVEMENT IS LARGELY FROM BETTER RAIN-FALL, BUT SOME CREDIT SHOULD GO TO YEAR-OLD "FOOD PRODUCTION WAR." YET, GSL FACES SERIOUS PROBLEM IN CONFIDENTIAL

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MAINTAINING FOOD DRIVE MOMENTUM DESPITE INCREASED INCENTIVE OF NEARLY DOUBLED PADDY PRICES TO FARMERS OVER PAST YEAR. ELIMINATION IN JULY OF SUBSIDY FOR PADDY FERTILIZER (UNFORTUNATELY CAPPING A 100 PCT INCREASE WIN COST OF IMPORTED FERTILIZER) WILL PROBABLY REDUCE RICE PRODUCTION BECAUSE OF CLEAR SIGNS OF FARMER RESISTENCE TO QUADRUPLD FERTILIZER PRICES. CURRENT AND PLANNED RICE AND FLOUR IMPORTS ARE UNCHANGED FROM PAST YEARS (ALTHOUGH SUGAR IMPORTS HAVE BEEN DEEPLY CUT), INDIATING THAT GSL ITSELF HAS LITTLE CONFIDENCE IN SIGNIFICANT NEAR-TERM PROGRESS TOWARD FOOD SELF-SUFFICIENCY. ELSEWHERE, DECLINE CONTINUES IN PRODUCTIVE CAPACITY OF DOMINANT PLANTATION EXPORT SECTOR. ACTUAL TEA, RUBBER, AND CONCNUT EXPORTS HAVE ALL DECLINED ALTHOUGH FOREIGN EXCHANGE LOSS HAS BEEN LESSENERED BY HIGH WORLD PRICES. REASONS FOR DECLINE INCLUDE GREATLY INCREASED INPUT COSTS AND NEGATIVE EFFORT OF LAND REFORM ON INVESTMENT IN PLANTATIONS.

14. INFLATION HAS RISEN RAPIDLY, ESPECIALLY IN URBAN AREAS, WHILE UNEMPLOYMENT WAS SWOLLEN BY AUGUST GRADUATION OF THOUSANDS OF YOUTHS FOR WHOM THERE ARE NO JOB OPPORTUNITIES. CATALOGUE OF WOES COULD BE EXTENDED, AND SRI LANKA IS NOT UNIQUE IN EXPERIENCING

THEM, BUT POINT IS THAT STEADY DETERIORATION CONTINUES TO ERODE POTENTIAL IMPACT OF RISING FOREIGN ASSISTANCE. SO FAR, ONLY LOAN FROM OIL EXPORTERS PUBLICLY OR PRIVATELY CONFIRMED IS 21 MILLION DOLLAR KUWAITI CREDIT NEGOTIATED IN JULY BY JUSTICE MINISTER FELIX DIAS BANDARANAIKE (COLOMBO 2303). DURING TWO MID-EAST TOURS BANDARANAIKE REPORTEDLY DISCUSSED FURTHER KUWAITI CREDITS AND SUBSTANTIAL ASSISTANCE AND INVESTMENT FROM IRAN AND SAUDI ARABIA BUT NO FURTHER LOANS HAVE BEEN ANNOUNCED. GSL WILL PROBABLY GET MORE, IF SOMEWHAT GRUDGING, ASSISTANCE FROM OIL EXPORTERS, BUT NOT ENOUGH TO COVER ENTIRE LOOMING EXTERNAL PAYMENTS GAP.

15. FOLLOWING SIGNS IN EARLY 1974 OF SOMEWHAT EASIER ECONOMIC ATMOSPHERE, FOREIGN INVESTMENT CLIMATE APPEARED SLIGHTLY BETTER DURING LAST QUARTER, RESULTING IN SERIOUS INQUIRIES FROM WESTERN COUNTRIES. AMERICAN INTERESTS
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INCLUDED SENSITIVE AREAS OF BANKING (FIRST NATIONAL CITY BANK (FNCB) COLOMBO BRANCHING PROPOSAL) AND OIL EXPLORATION (#)

TO SQUEEZE DOMESTIC PRIVATE SECTOR FURTHER AND TO RESIST "IMPERIST EXPLOITATION." OUTLOOK NOW IS THAT IDEOLOGICAL IN-FIGHTING WILL RESULT IN FEW, IF ANY, POSITIVE DECISIONS, RAISING POSSIBILITY THAT PROMISING INVESTMENT OPPORTUNITIES WILL SLIP BY.

16. FOREIGN POLICY AND RELATIONS. FOR MANY MONTHS CEYLONESE FOREIGN POLICY HAS BEEN LOW PROFILE IN STYLE AND CONTENT. DURING PAST QUARTER, HOWEVER, TEMPO OF GSL BILATERAL RELATIONS WITH NUMBER OF COUNTRIES WAS QUICKENED FROM QUIESCENCE TO CONCERTED ACTIVITY. MRS. BANDARANAIKE UNDERTOOK EXTENDED TRAVEL, FIRST TO MALDIVES IN LAST AUGUST, AND THEN SUCCESSIVELY TO PAKISTAN, FRG, ROMANIA, AND YUGOSLAVIA IN SEPTEMBER. RESULTS HAVE BEEN PRODUCTIVE IN TERMS OF CEMENTING GOOD BILATERAL RELATIONS, IN OBTAINING LIMITED ADDITIONAL ECONOMIC ASSISTANCE, ESPECIALLY FROM WEST GERMANY AND ROMANIA,

AND, IN CASE OF YUGOSLAVIA, IN LAYING GROUNDWORK FOR MODERATING
ROLE GSL APPEARS ANXIOUS TO PLAY AS HOST TO 1976 NON-ALIGNED
CONFERENCE. INCREASINGLY, PREPARATIONS FOR CONFERENCE
HAVE BECOME FOCUS OF GSL POLICY.

NOTE BY OC/T: COLOMBO 2832/3. (#)OMISSION.
CORRECTION TO FOLLOW.

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R 100730Z OCT 74
FM AMEMBASSY COLOMBO
TO SECSTATE WASHDC 1697
INFO AMEMBASSY DACCA
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C O N F I D E N T I A L SECTION 4 OF 4 COLOMBO 2832

LIMDIS

17. GSL'S INTEREST IN SOUTH ASIAN REGION IN PAST
THREE MONTHS HAS ASSUMED BROADER DIMENSION. PM'S
VISIT TO MALDIVES, FOLLIWNT PRIME MINISTER ZAKI'S
STATE TOUR HERE IN JULY, ESTABLISHED FIRM BASE FOR
RELATIONS BETWEEN TWO COUNTRIES, OF MUCH IMPORTANCE TO
SRI LANKA IN IMAGE AND SUBSTANCE. HER TRAVEL TO PAKISTAN
REFLECTED CORDIAL POLITICAL RELATIONS AND HIGH LEVEL OF
TRADE WITH THAT COUNTRY. IN DISCUSSIONS MRS. BANDARANAIKE
CAREFULLY SKIRTED PAKISTANI OVERTURES FOR SOUTH ASIAN
NUCLEAR FREE ZONE. NONETHELESS, INDO-SRI LANKA RELATIONS
REMAIN OF PARAMOUNT IMPORTANCE TO COLOMBO. NEITHER GSL
FOEIGN MINISTRY NOR GOVERNMENT-CONTROLLED PRESS HAS

COMMENTED ON SIKKIM ISSUE, BUT PROMINENT PRESS COVERAGE OF PAKISTANI AND CHINESE VIEWS OF GOI INCORPORATION SUGGESTS UNSTATED CONCERN. BEYOND NUANCES, HOWEVER, INDO-SRI LANKA RELATIONS TOOK FIRST STEP FORWARD IN POST-KACHCHATIVU AGREEMENT PERIOD WITH SIGNING ON AUGUST 21 OF AGREEMENT ON COOPERATION IN ANIMAL CONFIDENTIAL

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HUSBANDRY FIELD. ACTION IS FIRST INDIAN EXTENSION OF ECONOMIC ASSISTANCE TO SRI LANKA. BOTH GOVERNMENTS HAVE EXPRESSED INTEREST IN SIGNIFICANTLY EXPANDING THEIR ECONOMIC RELATIONS.

18. ELSEWHERE, GSL HAS UPGRADED CEYLONSE REPRESENTATION IN MALAYSIA AND INDONESIA TO AMBASSADORIAL LEVEL. REFERENCES TO "ASIAN APPROACH" AND "ASIAN IDENTITY" HAVE EMERGED IN MALDIVIAN AND PAKISTANI COMMUNIQUE. WHILE NOT DROPPING ITS OWN INDIAN OCEAN PEACE ZONE PROPOSAL, GSL WITH AN EYE TOWARD NON-ALIGNED SUMMIT MAY BE BEGINNING TO THINK IN TERMS OF BROADER FRAMEWORK FOR PURSUIT OF ITS INTERESTS, GROUNDED ON CONCEPT OF REGIONAL IDENTITY LESS DEFINED AND MORE FLEXIBLE THAN IOPZ. ALL OF THIS MAY REPRESENT SOME DEGREE OF STATE-SETTING FOR SLOW EVOLUTION OF FOREIGN POLICY ATTITUDES, INCLUDING EFFORTS TO FORGE CLOSER TIES WITH MIDDLE EAST.

19. RELATIONS WITH UNITED STATES. OUR BILATERAL RELATIONS WITH SRI LANKA REMAIN GOOD, BUT THEY ARE ALSO TINGED WITH SOME RESIDUAL NERVOUSNESS WITHIN GSL ABOUT ATTITUDE OF NEW FORD ADMINISTRATION TOWARD SRI LANKA. FROM GSL PERSPECTIVE, FOR EXAMPLE, PRESIDENT FORD'S FIRST FOREIGN POLICY STATEMENT RELATING TO THIS REGION TOUCHED ON PLANS FOR EXPANSION OF DIEGO GARCIA. GSL'S UNCERTAINTY WAS REFLECTED IN PRIME MINISTER'S PRIVATE COMMENTS TO AMBASSADOR AS WELL AS IN DECISION TO RETAIN AMBASSADOR KANAKARATNE IN WASHINGTON IN SPITE OF HIS PENDING TRANSFER TO LONDON. GSL WILL, THEREFORE, BE LOOKING FOR SIGNS THAT CLOSE COOPERATION WILL PERSIST BETWEEN TWO GOVERNMENTS. ASSISTANT SECRETARY ATHERTON'S EXPRESSION OF "SPECIAL AFFINITY TO SRI LANKA" IN HOUSE TESTIMONY ON SEPTEMBER 19 REINFORCED AMBASSADOR'S ASSURANCES HERE OF CONTINUITY IN U.S. POLICY, AS DID PRESIDENT'S AND SECRETARY'S PERSONAL MESSAGES TO MRS. BANDARANAIKE. SPECIFIC ITEMS ON BILATERAL AGENDA DURING PAST THREE MONTHS WERE APPROVAL OF U.S. NAVY SHIP VISIT BEGINNING SEPTEMBER 30, SUBMISSION OF FNCB APPLICATION TO OPEN LOCAL BRANCH, AND PRODUCTIVE VISIT BY AID/WASHINGTON TEAM THAT CONSIDERABLY ADVANCED PROGRESS TOWARD REINSTITUTION OF DEVELOPMENT LEADING. IF FNCB CONFIDENTIAL

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APPLICATIONS IS APPROVED, IT WOULD SIGNAL DEVELOPMENT OF MORE POSITIVE ATTITUDE TOWARD AMERICAN AND OTHER FOREIGN PRIVATE INVESTMENT.

20. HARDLY A CLOUD, BUT STILL AN ISSUE OF CONCERN TO LEFT IN SRI LANKA, ARE ALLEGATIONS OF CIA INTERVENTION AGAINST ALLENDE RDKIME IN CHILE. QUESTION HAS RECEIVED GOOD DEAL OF PRESS PLAY IN COLOMBO AND MAY WELL BE TAKEN TO HEART BY THOSE, ESPECIALLY WITHIN LSSP, WHO HAVE ALWAYS DRAWN CLOSE ANALOGY BETWEEN SRI LANKA AND ALLENDE'S CHILE. ANTI-U.S. OVERTONES OF SUCH THINKING BURST INTO OPEN UNEXPECTEDLY DURING COMMONWEALTH PARLIAMENTARY ASSOCIATION ADDRESS BY FINANCE MINISTER N.M. PERERA (COLOMBO 2566 NOTAL). ALTHOUGH PM REMAINS IN FIRM CONTROL OF GSL FOREIGN POLICY, PERERA'S OUTLOOK ON WORLD AND U.S. ROLE IN IT FORMS SIGNIFICANT IF RECESSIVE STRAIN OF LEFT-WING THINKING ON FOREIGN RELATIONS. CONCERN WITH IMMEDIATE ISSUES OF DOMESTIC POLICIES MAY PREVENT ITS FREQUENT EXPRESSION, BUT IF PRESSURE FROM RADICAL LEFT MOUNTS ON LEADERSHIP OF LSSP AND CP/M, UNITED STATE COULD BECOME TARGET OF CRITICISM IN THOSE CIRCLES AS DIVERSION FROM DIFFICULT ECONOMIC PROBLEMS. AT LEAST IN NEAR TERM, HOWEVER, WE BELIEVE MRS. BANDARANAIKE WILL CONTAIN SUCH PRESSURES AND KEEP PRESENT GOOD RELATIONS WITH US, FOR SHE NOW REGARDS FOREIGNLY TIES WITH UNITED STATES USEFUL BOTH IN TERMS BALANCED NON-ALIGNED STANCE AND IN TERMS SIGNIFICANT SOURCE OF ESSENTIAL ECONOMIC ASSISTANCE. VAN HOLLEN

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